

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF TRI-VILLAGE)
WATER DISTRICT FOR AN ADJUSTMENT)
OF RATES PURSUANT TO THE) CASE NO. 8834
ALTERNATIVE PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On May 16, 1983, Tri-Village Water District ("Tri-Village") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method ("ARF") in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayers. Moreover, Tri-Village requested authority to implement a purchased water adjustment clause as prescribed by the Commission's administrative regulation 807 KAR 5:067.

Tri-Village requested rates which would produce an annual increase in gross revenues of \$29,370. In this Order the Commission has not allowed Tri-Village to increase its present rates.

There were no intervenors in this matter and no protests were entered. All information requested has been submitted.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Tri-Village showed a net loss for the test period of \$4,379. Tri-Village proposed several pro forma adjustments to the test period revenues and expenses in order to reflect more current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Operating Revenues

In its 1982 annual report, Tri-Village showed total operating revenues of \$159,825. Under current rates and usage for the test period as outlined in its billing analysis, normalized metered residential sales for the test period were \$165,657, rather than \$195,505 as shown in the annual report. Thus, normalized operating revenue for the adjusted test period is \$181,932 based on metered residential sales of \$165,657, bulk sales of \$15,000 and other miscellaneous service revenues of \$1,275.

Purchased Water Expense

Tri-Village reported water sales of 70,010,800 gallons in its annual report for the test year ended 1982. As explained above, Tri-Village submitted a billing analysis of metered

residential sales of 53,976,600 gallons and bulk sales of 4,833,500 gallons, or total test period sales of 58,810,100 gallons. The Commission requested information from Tri-Village to determine the correct test period sales usage and was informed in a response filed by Tri-Village on September 19, 1983, that the latter figure was correct.

Tri-Village purchased 74,420,800 gallons of water from its supplier, the City of Owenton, during the test period. Unaccounted-for water for the test period is therefore 15,610,700 gallons or 21 percent. Tri-Village stated that, although it could not be determined with accuracy, it estimated that only half of the unaccounted-for water was due to leakage while the remainder was due to faulty meter readings. The Commission has an established policy for rate-making purposes of disallowing the cost associated with unaccounted-for water in excess of 15 percent. The Commission is of the opinion that the full 21 percent must be considered as unaccounted-for water for the test period. Therefore, using the current rates charged by Tri-Village's supplier, the City of Owenton, the Commission has determined that adjusted purchased water expense of \$67,005^{1/} is allowable for rate-making purposes.

Utility Inflation Adjustments

As stated above, it is the Commission's policy to allow only known and measurable adjustments to operating expense. Tri-Village supplied no documentation to substantiate the inflation adjustments it made to three test year operating

expenses. Therefore, the Commission has denied the inclusion of the following adjustments in rates:

Operating Supplies and Expenses	\$ 36
Property Insurance	285
Miscellaneous Expense	<u>2</u>
Total	<u>\$323</u>

Maintenance of Mains

An analysis of test period costs shown as expense in the account maintenance of mains showed that Tri Village improperly expensed the cost of 40DAWR pilot valves and related parts costing \$585. The Commission considers this to be a capital item and has excluded it from maintenance of mains but will depreciate it accordingly in a later section of this Order.

Moreover, the pro forma inflation adjustment of \$622 to maintenance of main has been denied by the Commission as it was not documented as being known and measurable. Therefore, the Commission has reduced the expense of maintenance of mains by \$1,207.

Office Supplies and Other Expense

Tri-Village projected operating expenses of \$4,791 for office supplies and other administrative expenses for the test period. Office equipment totalling \$200 purchased from the Division of Surplus Property was erroneously expensed rather than capitalized. The Commission is of the opinion that the cost of this item should be removed from this account and accorded proper accounting treatment through depreciation accounting as prescribed

by the Uniform System of Accounts for Water Utilities.

A Christmas bonus totalling \$350 was paid to the three employees of Tri-Village during the test period and included in this expense account. The expense of this bonus has been denied as the Commission is of the opinion that it is improper for the ratepayers to bear this additional expense.

Finally, the inflation adjustment to this expense of \$275 as proposed by Tri-Village has also been disallowed on the basis of not being known and measurable. Therefore, the Commission has reduced Tri-Village's adjustment by \$825.

Outside Services Employed

The Commission has reduced the pro forma expense of outside services employed by \$415 to reflect the charges to Tri-Village made by Dennis S. Raisor, Certified Public Accountant, for services rendered in the examination of the financial records of Tri-Village for the year ended December 31, 1982. This expense should properly be recorded during the year ended 1983 and is outside the scope of the test period in this case.

Employee Expense Reimbursement

Tri-Village included \$1,920 in test year expenses which was paid as "reimbursement" of two of its maintenance employees' out-of-pocket expenses. Tri-Village stated that these two employees were paid a flat \$80 per month to cover any company expenses they incurred. It is unclear from the record what these expenses could be for; however, it is very clear that Tri-Village exercised no significant control over expense reimbursements and thus appears to be paying \$1,920 annually for something of

questionable and undetermined value. Therefore, the Commission is of the opinion that there is insufficient justification for this expense to be included in customer rates. Moreover, the Commission considers this a poor management practice subject to abuse. The Commission strongly advises management to re-evaluate its expense reimbursement program and devise specific procedures for reimbursement and maximum allowances for these charges. Management should further require documentation of employees' expenses and review this documentation before payment is rendered.

Depreciation Expense

Tri-Village projected depreciation expense of \$19,750. The 1982 Annual Report of Tri-Village disclosed that \$189,027 of gross plant had been financed by contributions in aid of construction from its ratepayers and the Farmers Home Administration. It is the policy of this Commission to compute depreciation expense on the basis of the original cost of the plant, less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of the plant that has been provided at zero cost. Based on this policy, the Commission has reduced depreciation expense by \$4,928.^{2/}

An inflation adjustment of \$206 proposed by Tri-Village has been disallowed on the basis of being neither known nor measurable. Moreover, the Commission, in its disallowance of capital items of \$785 included in the cost of the maintenance of mains (\$585) and office supplies (\$200), has allowed a pro forma depreciation expense adjustment of \$262 computed using a 3-year

service life considered reasonable by the Commission.

Therefore, the Commission has determined that Tri-Village's adjusted depreciation expense for rate-making purposes is \$14,878.

Interest on Long Term Debt

Tri-Village's actual interest expense for the test period of \$15,490 for long term debt has been used by the Commission in its computation of revised rates.

Other Interest Expense

Tri-Village projected pro forma interest expense of \$4,500 on notes payable of \$35,000, which included an adjustment of \$240 for interest fluctuation. The Commission has denied the \$240 adjustment as being neither known nor measurable.

Therefore, Tri-Village's adjusted operations at the end of the test period are as follows:

	<u>Tri-Village Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 161,780	\$ 20,152	\$ 181,932
Operating Expenses	158,840	\$ (15,557)	143,283
Operating Income	<u>2,940</u>	<u>35,709</u>	<u>38,649</u>
Other Income	100		100
Interest Expense	<u>19,500</u>	<u>250</u>	<u>19,750</u>
Net Income (Loss)	<u>\$ (16,460)</u>	<u>\$ 35,459</u>	<u>\$ 18,999</u>

REVENUE REQUIREMENTS

The Commission has used the debt service coverage method to determine appropriate revenue requirements for Tri-Village. Tri-Village's average debt service for the next 5 years is approximately \$31,150. Tri-Village's debt service coverage on adjusted operating income of \$38,649 plus other income of \$100 is

1.24X. The Commission is of the opinion that a debt service coverage of 1.2X is the fair, just and reasonable coverage necessary for Tri-Village to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission has determined that the present revenues are sufficient and will insure the financial stability of Tri-Village.

RATE DESIGN

Tri-Village presently bills its customers on four different rate schedules containing varying usage and rate levels. Of its 790 customers, approximately 780 receive similar service through 5/8-inch X 3/4-inch meters. Five customers are served through 1-inch meters, two through 2-inch meters and three through 3-inch meters. Tri-Village proposed to change its rate design by deleting the various rate classes and billing all customers on a single rate schedule.

In its response to the Commission's Order dated June 14, 1983, Tri-Village stated that there are inequities in the present rate schedules and that a single rate would be more fair to all customers. While the Commission agrees with Tri-Village that there may be inequities in the present rate design, it is of the opinion that the data filed in this case are not sufficient to determine an appropriate rate structure which would eliminate such inequities.

Tri-Village's present tariff provides that all customers whose premises are located within 500 feet of a fire hydrant shall pay \$.25 per month in addition to their regular monthly rates. No

charge is made for water used for fire-fighting purposes. Two hundred and twenty-four customers were billed a total of \$672 during the test year. Tri-Village proposed to delete the fire hydrant rate from its tariff.

The inclusion of this \$672 annual revenue in Tri-Village's general rates would result in an increase of approximately \$.07 per month per customer for customers located more than 500 feet from a fire hydrant and a decrease of \$.18 per month for customers within 500 feet of a fire hydrant. Although the change in cost to any customer would be minimal, since no other change in Tri-Village's rate schedules is approved at this time, the Commission is of the opinion that the difficulty in making this change would negate any benefits that might be derived from the simplified billing.

OTHER CHARGES

Tri-Village proposed to establish charges for trips made to collect delinquent bills, to reconnect a service which has been discontinued for non-payment, and for returned checks. The Commission is of the opinion the proposed charges are reasonable and should be approved in that they will allow recovery of these costs from those for whom the costs are incurred.

Tri-Village's proposed tariff states that the utility may make a "reasonable" charge for reading a meter when the customer has failed to read the meter for 3 consecutive months; however, no specific amount was proposed to be charged. Approximately the same costs would be incurred for a trip to read a meter as for a trip to collect a delinquent bill. The Commission is of the

opinion, therefore, that the charge to read a meter should be the same as that to collect a delinquent bill.

Tri-Village has a different service connection charge (tap-on fee) for each class of customer, but has proposed a single connection charge of \$300 for all customers. The Commission is of the opinion that \$300 is a reasonable charge to be made for most service connections and should be approved; however, the Commission is concerned that this amount may not adequately cover the cost of service connections using meters larger than 5/8-inch X 3/4-inch which might adversely affect the utility if a number of larger meters were required. Should this situation appear likely, Tri-Village should file revised tariff sheets, along with appropriate cost justification, to establish compensatory service connection charges for large meters.

PURCHASED WATER ADJUSTMENT

In its application, Tri-Village requested "authority procedurally to pass through or establish purchase water adjustments when and if increases on wholesale water is required on this District in the future." A purchased water adjustment clause was approved for Tri-Village and an increase granted in Case No. 7604-1, Purchased Water Adjustment of Tri-Village Water District, effective June 15, 1982. Tri-Village was ordered to file revised tariff sheets setting out the rates and the purchased water adjustment clause approved therein within 30 days of the date of that Order. To date, the revised tariff sheets have not been filed.

The purchased water adjustment clause previously approved, when filed with the tariff as provided in 807 KAR 5:067, establishes the procedure to be followed in applying for rate adjustments necessitated by an increase in the wholesale cost of water; thus, this issue need not be addressed again in this Order. However, the Commission cautions Tri-Village that future applications for purchased water adjustments will not be considered until the tariff filing ordered in Case No. 7604-1 has been made.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rates proposed by Tri-Village would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. The data filed by Tri-Village is not sufficient to determine appropriate changes to its rate structure; therefore, the proposed change in rate structure should be denied.

3. The proposed deletion of the fire hydrant rate should be denied at this time.

4. The Commission has previously approved a purchased water adjustment clause for Tri-Village. Tariff sheets should be filed with the Commission setting out the approved purchased water adjustment clause.

5. The proposed charges for returned checks and for trips to collect delinquent bills and reconnect service discontinued for non-payment of bills are reasonable and should be approved. The

meter reading charge should be the same as the charge to collect a delinquent bill.

6. The proposed service connection charge is reasonable and should be approved.

IT IS THEREFORE ORDERED that the rates proposed by Tri-Village be and they hereby are denied.

IT IS FURTHER ORDERED that the proposed changes in rate structure and deletion of the fire hydrant rate be and they hereby are denied.

IT IS FURTHER ORDERED that the service connection charge proposed by Tri-Village be and it hereby is approved for service connections made on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Tri-Village shall file with the Commission its tariff sheets setting forth its purchased water adjustment clause and the charges approved herein.

IT IS FURTHER ORDERED that the charges for returned checks and for trips to collect delinquent bills, reconnect service, and read meters as listed in Appendix A be and they hereby are approved, effective on and after the date of this Order.

Done at Frankfort, Kentucky, this 3rd day of November, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. Gallons of water sold during 1982 = 58,810,100 gallons.

58,810,100 gallons ÷ .85 = 69,188,353 gallons.

Computation:

Minimum annual usage - 160,000 gallons X 12 = 1,920,000
gallons

Minimum annual cost - \$258.36 (2 meters) X 12 = \$3,100.32.

Annual water expense:

Annual minimum bill - \$ 3,100.32

Remainder:

69,188.353 M gals. - 1,920 M gals. X .95 = 63,904.94

Total \$67,005.26

2. Calculation:

Depreciation expense @ 12/31/82 \$19,544

Plant in service @ 12/31/82 \$751,175

Less: Contributions in aid of
construction @ 12/31/82 189,027

Subtotal \$562,148

Composite depreciation rate X 2.6% = 14,616

Amount of reduction \$ 4,928

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8834 DATED NOVEMBER 3, 1983

The following charges are prescribed for the customers of Tri-Village Water District. All rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SPECIAL CHARGES

Service Connection 5/8-inch X 3/4-inch meter	\$300.00
Meter Reading	10.00
Collection of Delinquent Bills	10.00
Reconnection	15.00
Returned Checks	5.00